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Brazil

Cotton and Products Update

2011-12 Cotton Production Forecast at a Record 9.5 Million Bales

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Report Highlights:
Brazil's 2011/12 cotton production is now forecast at a record 9.5 million bales, up 8 percent from 2010/11 production now estimated at 8.7 million bales. Favorable potential returns and significant future committed sales mainly destined for export contribute to an expected increase in planted area by 6 percent to 1.5 million hectares. Post now estimates Brazil's 2011/12 cotton exports at 4.1 million bales, based on significant demand from China, more than double the 2 million bales exported in 2010/11. Quality discounts due to low micronaire have been applied to 10-15 percent of Brazil's 2010/11 crop and originates from the Center-West. Post lowered Brazil's estimated domestic consumption to 4.15 million bales in 2010/11 and consumption is forecast to remain flat in 2011/12 due to increased imports of ready-made clothing.

Post: Brasilia

Production, Supply, and Demand Statistics

Cotton Brazil	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	836	836	1,400	1,400	1,400	1,500
Beginning Stocks	4,992	4,991	4,353	4,366	7,806	7,644
Production	5,450	5,465	9,000	8,725	9,000	9,500
Imports	151	150	703	703	100	50
MY Imports from U.S.	0	0	0	605	0	30
Total Supply	10,593	10,606	14,056	13,794	16,906	17,194
Exports	1,990	1,990	2,000	2,000	3,800	4,100
Use	4,400	4,400	4,400	4,300	4,400	4,300
Loss	-150	-150	-150	-150	-150	-150
Total Dom. Cons.	4,250	4,250	4,250	4,150	4,250	4,150
Ending Stocks	4,353	4,366	7,806	7,644	8,856	8,944
Total Distribution	10,593	10,606	14,056	13,794	16,906	17,194
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Brazil's 2011/12 Cotton Production Forecast at a Record 9.5 Million Bales

Post increased Brazil's 2011/12 cotton production forecast to a record 9.5 million bales, up 8 percent over the estimated 8.7 million bales produced in 2010/11. The 2011/12 area planted to cotton is forecast at 1.5 million hectares with the state of Mato Grosso expecting the largest increases in planted area. Harvesting and processing of the new forecast record crop, as was the case with last year's record crop, will be affected negatively by an insufficient planters, pickers, and gins. The record 2010/11 crop has been hamstrung by a shortage in ginning capacity with only 85 percent of ginning completed. Ginning, which is normally completed by now, is expected to conclude sometime in January. The quality of the cotton from those bales still waiting in the field for delivery to the gin are expected to be adversely affected, to some degree, by rain. Large producers continue to invest heavily in cotton production and processing equipment as evidenced by a two-year back order on new John Deere module pickers. These module pickers replace cotton bale presses and other harvest equipment and reduce the harvest season labor requirements thus significantly increasing harvest efficiency. The state of Mato Grosso, accounting for 50 percent of national production, is now expected to maintain a 60:40 ratio of first-to-second crop cotton planted area in the 2011/12 season. First crop cotton planting begins in December and is mainly planted in 90 centimeter (cm) spaced rows. The second crop cotton is planted in either 76 or 45 cm spaced rows in January and early February following the harvest of early-maturing soybeans. The state of Bahia is ranked second and is responsible for over 30 percent of national production. Cotton remains a favorable high risk-reward crop for large producers and groups as it increases lines of credit available to pay off large investments and to support the other crops, mainly soybeans and corn, being produced on a rotational basis. In addition, the soil management requirements demanded for successful cotton production pay dividends through increased yields experienced in alternate crop plantings of soybeans and corn in rotational years.

Discounts due to Low Quality Reduce Profitability for Brazil's 2010/11 Crop

The Brazilian Cotton Exporters Association (ANEA) has recently doubled the quality discount it recommends that associate trading firm members apply to cotton received by producers with low micronaire. With this recommendation, quality discounts range from 4.5 cents per pound (lb) to 22.5 cents/lb for cotton delivered with the micronaire falling below 3.5 – 4.9, which is considered the market standard. Low micronaire has been manifest in cotton produced in the Center-West and has affected 10-15 percent of national production, or approximately 1.1 million bales. The discounts are estimated to represent a 2-3 percent loss for the producer and 5 percent loss for traders as they renegotiate contracts not meeting original quality standards. Beyond quality standards not being satisfied, a significant percentage of cotton contracts has been renegotiated and/or broken over the past six months as world prices have dropped by more than 50 percent since their peak in March to settle around US$1.00/lb. In addition, depending on the destination of the cotton, some markets, such as the European Union, have experienced weakening demand which has been a factor in contract renegotiation.

Mato Grosso State Researching the Source of Low Micronaire in 2010/11 Crop

The state of Mato Grosso is researching the cause of low micronaire (3.0-3.4) manifest in around 20 percent of the 2010/11 state crop. Twenty percent of the crop from the states of Goias and Mato Grosso do Sul also has low micronaire. Research is being carried out to determine if the low micronaire stems from inadequate rainfall during the pod fill stage that was experienced in certain regions these last two seasons or if it is more systemic and a result of poor seed technology. Industry sources have indicated that for certain textile needs, the affected portion of the crop possessed adequate staple length and resistance characteristics to compensate for the low micronaire. In the state of Mato Grosso, the early arrival of the dry season allowed for a concentrated harvest wherein full-season (90 cm row-spacing) and second-crop (76, 50, or 45 cm row-spacing) cotton was ready for harvest simultaneously. The harvest season was extended due to the record crop size and lack of harvest equipment. The narrow-row (45 or 50 cm row-spacing) cotton that increased in area from a pilot of 5,000 hectares in 2008/09 to over 100,000 hectares in 2010/11 has not been uniform in yield and quality characteristics. Hence, the lower production cost associated with the narrow-row cotton model may not continue to be seen as economically viable should quality discounts continue to affect the bottom line.

2011/12 Brazil Cotton Exports Forecast at a Record 4.1 Million Bales

Post now forecasts Brazil's 2011/12 cotton exports at 4.1 million bales an 85 percent increase over the 2 million bales exported in 2010/11. China has been buying significant quantities of cotton on the world market, including from Brazil, increasing its national stocks. Brazilian cotton exports last month (October) set a new monthly record of over 800,000 bales, well above the monthly national export capacity, that has averaged 460,000 bales per month.

Brazil's Domestic Textile Industry Faces Increased Competition from Ready-Made Imports

Post now forecasts 2011/12 domestic consumption to remain flat at 4.15 million bales. Brazil's use of cotton, domestically produced or imported, as a percentage of overall fiber usage is much higher at 50 percent than the world average of 35 percent. However, the Brazilian textile industry continues to struggle after weathering the historic price spikes early this year and is substituting man-made fiber for cotton where feasible to reduce costs. The textile industry experience a 16 percent decrease in production in 2010/11. Many small domestic textile firms operate with a maximum of 20 days stocks-use ratio. The textile industry estimates imports of ready-made clothing to reach the equivalent of 100,000 mt in 2011/12, an annual increase of 44 percent which will have a significant impact on domestic production. It is estimated that 50,000 mt, or half of this increase, is derived from imports via tourism with each Brazilian tourist estimated to return to Brazil with clothing purchases equivalent to 10kg of cotton. Given the high domestic production costs, industry sources indicate a market favoring imports even under a scenario of continued depreciation of the Brazilian Real to R$2.00 = US$1.00.

Other Relevant Reports:
2011 - Brazil Cotton and Products Update - September
2011 - Brazil Annual Cotton Report